

December 15, 1999

The Honorable Tony Knowles, Governor
Members of the Alaska State Legislature
Public Employees' Retirement Board
Alaska State Pension Investment Board
Employers and Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (System) for the fiscal year ended June 30, 1999. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

The 1999 CAFR is divided into five sections:

- an **Introductory** Section, which contains this transmittal letter, the administrative organization of the System, and a list of the members serving on the Public Employees' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Schedules, and Notes to Required Supplementary Schedules;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska PERS was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	PERS		
	FY99	FY98	FY97
Net Assets (millions)	\$8,105.4	7,438.4	6,566.2
Participating Employers	153	148	150

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Public Employees' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division listed in the Investment Section on pages 44-46. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Changes to the current computer systems to improve operations and to address Year 2000 readiness are on-going.

Preparations were made to facilitate the transition to a new health claims payor, Aetna U.S. Care, effective July 1, 1999. The System is self-insured for all postemployment healthcare benefits and contracts with a third party for payment of claims. The advantages to self-insuring include allowing greater flexibility in developing health care options. The System's web site allows members to enroll during an open enrollment period, to print out claims forms and have access to information on benefits, wellness resources, hospitals, pharmacies, and providers.

This web site also includes Projection Estimators that will estimate a member's monthly benefit at retirement. Members can estimate their PERS benefit based on various factors pertinent to their membership.

During FY99, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

An updated cost allocation plan was implemented beginning in FY99 to comply with Office of Management and Budget (OMB) Circular A-87, which required allocating operating costs among pension trust funds using an updated allocation base.

The Retirement Incentive Program (RIP) continues to impact the division by increasing the number of members retiring. The Division expected to retire almost as many people for the month of July 1999 than during the entire calendar year 1993. Window periods for the current RIP ended June 30, 1999.

Senate Bill 9

During the FY99 legislative session, a law was enacted allowing noncertified PERS school district employees who work less than a full school year to have their service calculated under the provisions of the Teachers' Retirement System. Members who elect the SB 9 service calculation can receive a full year of service credit for working at least 172 days in a school year. SB 9 also applies to certain employees of the State Department of Education and other quasi-governmental organizations, as specified in the bill. The Division implemented member and employer education initiatives during FY99 regarding SB 9. The effective date of the bill is July 1, 1999.

Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of investment income and employer and employee contributions.

	Revenues			
	Millions		Inc/(Dec)	
	FY99	FY98	Amt	%
Employee Contributions	\$ 90.6	89.3	1.3	1.5%
Employer Contributions	110.0	112.4	(2.4)	(2.1)%
Net Investment Income	<u>764.6</u>	<u>937.8</u>	<u>(173.2)</u>	(18.5)%
Total	<u>\$ 965.2</u>	<u>1,139.5</u>	<u>(174.3)</u>	(15.3)%

The decrease in employer contributions was primarily due to a decrease in employer RIP contributions. The rate of return on investments decreased from 14.73% to 10.59%, accounting for a major part of the decrease in net investment income.

Deductions From Plan Net Assets

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

	Expenses			
	Millions		Inc	
	FY99	FY98	Amt	%
Pension Benefits	\$ 215.2	195.5	19.7	10.1%
Healthcare Benefits	64.5	55.2	9.3	16.8%
Refunds	14.4	13.6	0.8	5.9%
Administrative Expenses	<u>4.1</u>	<u>2.9</u>	<u>1.2</u>	41.4%
Total	<u>\$ 298.2</u>	<u>267.2</u>	<u>31.0</u>	11.6%

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits. The increase in administrative expenses was largely attributable to implementation of the new cost allocation plan, temporary and permanent staff increases to serve RIP retirees, and the continued implementation of a new employer reporting system.

Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY99, ASPIB adopted an asset allocation that includes 40% in Domestic Equities, 17% in International Equities, 32% in Domestic Fixed Income, 6% in International Fixed Income, and 5% in Real Estate.

ASPIB completed its diversification in investments through an investment in an external domestic fixed income asset class during the year. ASPIB also adopted a strategy to fund real estate and alternative investments over a period of years. This will ensure the funds are invested over a complete market cycle.

For FY99, PERS investments generated a 10.59% rate of return. The PERS annualized rate of return was 14.46% over the last three years and 14.54% over the last five years.

Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY99 and a rolling amortization of the funding target surplus or the unfunded target accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased slightly from 106.3% to 105.9% during the year, primarily the net effect of continued favorable investment experience and a change in the health trend assumption. Over the years, progress has been made toward achieving the funding objectives of the System.

There were no significant changes in the actuarial assumptions or actuarial methods used in the determination of System liabilities this year other than the health trend assumption change and asset valuation method change. The new asset valuation method produces no gains or losses if expected assets fall within a 5% corridor of the market value. Expected assets outside this corridor are amortized over 20 years as a level percent of pay and applied directly to the consolidated rate. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

The FY2000 consolidated rate increased from 9.85% to 9.89%, producing a total average rate for all employers in the System of 7.74%.

Valuation Year	Millions	
	1998	1997
Valuation Assets	\$6,571.6	5,885.5
Accrued Liabilities	6,204.0	5,534.1
Funding ratio	105.9%	106.3%

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Public Employees' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,



Robert Poe, Jr.
Commissioner



Guy Bell
Director

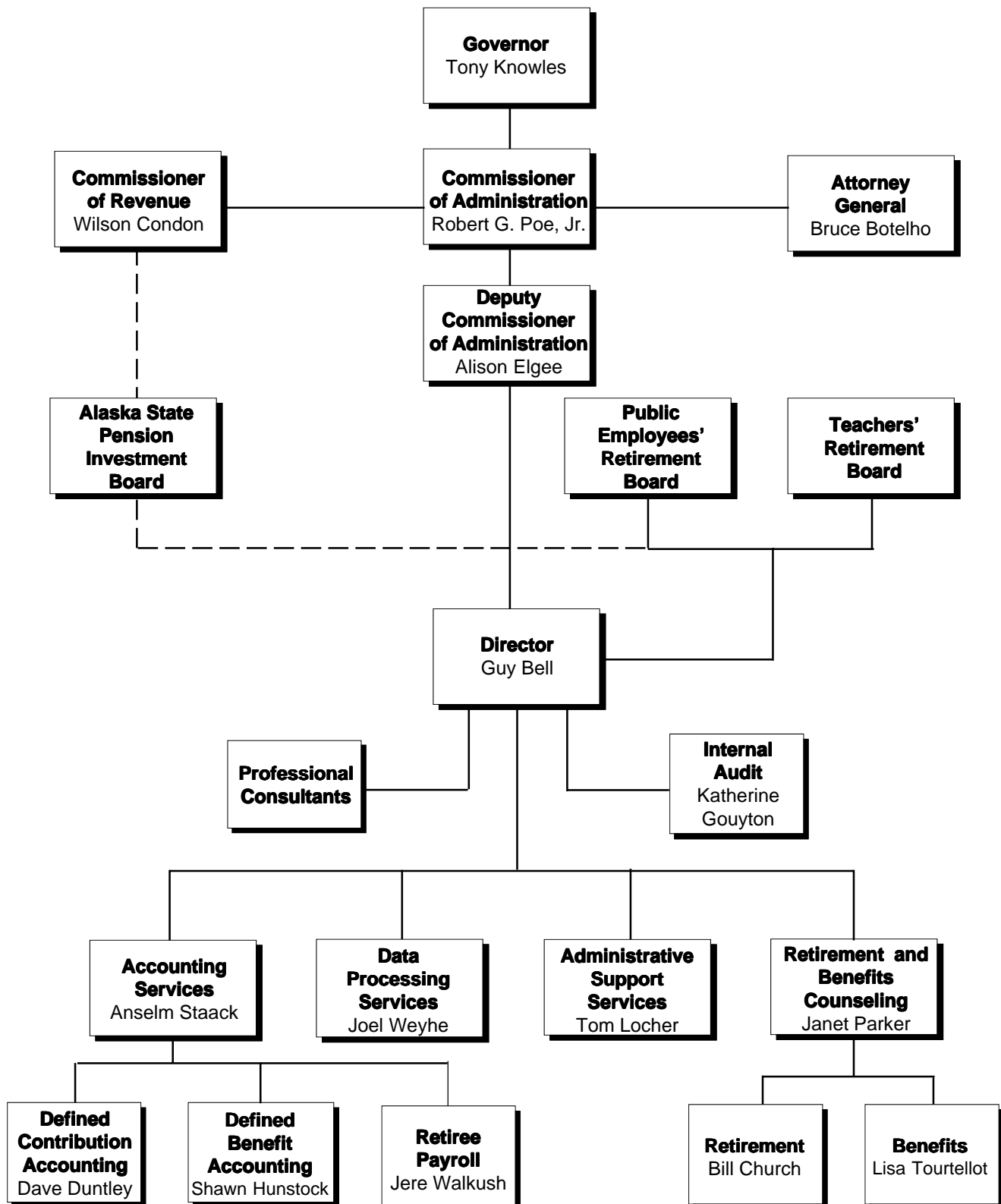


Janet L. Parker
Deputy Director



Anselm Staack, CPA, JD
Chief Financial Officer

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

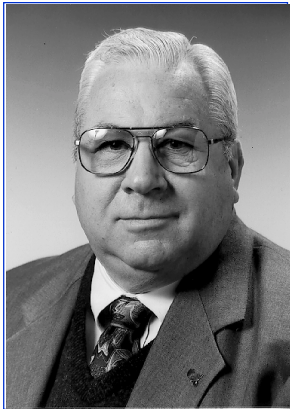
The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS	
<p>Consulting Actuary William M. Mercer, Incorporated <i>Seattle, Washington</i></p>	<p>Legal Counsel John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i></p>
<p>Independent Auditors KPMG Peat Marwick, LLP <i>Anchorage, Alaska</i></p>	<p>Legal Counsel - Retirement Boards Wohlforth, Argetsinger, Johnson & Brecht <i>Anchorage, Alaska</i></p>
<p>Benefits Consultant Deloitte & Touche, LLP <i>Minneapolis, Minnesota</i></p>	<p>Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i></p>
<p>Third Party Health Claim Administrator NYLCare Health Plans Northwest <i>Seattle, Washington</i></p>	

A list of investment professional consultants for the System can be found on pages 42-43, and the Schedule of Investment Management Fees on page 50-51.

PUBLIC EMPLOYEES' RETIREMENT BOARD



James "Pat" Wellington, Chair

Term Expires: April 5, 2002

Pat Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers; Chief of Police of Juneau; Deputy Commissioner and Commissioner of the Department of Public Safety; and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also a trustee of the Alaska State Pension Investment Board. Mr. Wellington is Chair of the Public Employees' Retirement Board.



Peter Hallgren, Vice Chair

Term Expires: June 20, 2000

Peter Hallgren has been an Alaska resident for 28 years and recently moved from Sitka to Delta Junction.

Peter served for over a decade as Municipal Attorney for the City & Borough of Sitka before being elected to the Sitka Assembly in 1987. Mr. Hallgren is a former Mayor of the City & Borough of Sitka. Since 1994 he has served on the Alaska Personnel Board, the Public Employees' Retirement Board, and chairman of the Republican Party of Alaska from 1994-1998. He is currently employed by the City of Delta Junction in a management capacity.

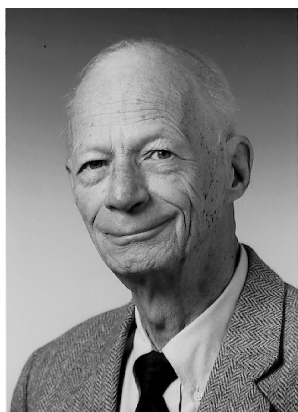


Charles Borg

Term Expires: June 30, 2004

Charles Borg resides in Anchorage. Raised in Washington, he graduated from Eastern Washington University in 1960 and began his career in the Army Infantry the same year. His military assignments included two tours of duty in Vietnam, infantry troop assignments in Europe, Alaska Director of Selective Service, and duty on the army staff at The Pentagon.

After his retirement from military active duty, he joined Alaska State government serving as Director of Veterans Affairs, and Deputy Commissioner of the Department of Military and Veterans Affairs. From 1991 to 1999, Mr. Borg served as Director of Managed Health Care at Elmendorf Hospital and federal health care coordinator for Veterans Affairs.



Charlie Parr

Term Expires: September 12, 2003

Mr. Parr began his career in the U.S. Army, where he served for 20 years, earning the Bronze Star with Oak Leaf Cluster. He earned a bachelor's degree in Russian and German language studies and a master's in English at the University of Alaska—Fairbanks. He is a 21 year resident of Fairbanks.

He has served on the Fairbanks Human Rights Commission and the Fairbanks North Star Borough Assembly, before serving six years in the state House then the Senate. His public appointments include the Education Commission, the Post-secondary Education Commission, the state Board of Parole and the Permanent Fund Trustees Board.



Mary A. Notar

Term Expires: April 5, 2002

Mary A. Notar was born and raised in Juneau, Alaska. She worked for Alaska Rural Development, Department of Education, Legislative Audit, and then worked for over 26 years for the Department of Revenue, Treasury Division. She began her career as an Accounting Clerk and retired as the State Cashier on July 1, 1986. She served on the St. Ann Nursing Home Board for 3 years.

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